The Central Bank
of the Republic of Uzbekistan

Money market and liquidity review

I quarter 2025

CONTENT

Introduction

In the first quarter of 2025, the liquidity of the banking system had a upward dynamics, and while the liquidity surplus increased slightly in the first months, the main growth was observed in March, due to the acceleration of government spending.

Interest rates in the money market evolved in line with the dynamics of liquidity, with a noticeable decline observed in March. During the quarter, monetary policy instruments were actively used to manage liquidity of the banking system.

Under the conditions of liquidity surplus and declining interest rates in the money market, the demand for liquidity provision operations, in particular, repo operations of the Central Bank, decreased, however, due to fluctuations in liquidity during the banking day, the demand for interest-free intraday credit facility remained high.

Due to the high liquidity surplus, the activity in the money market slightly declined compared to the fourth quarter of 2024. At the same time, the main volume of transactions in the interbank money market was accounted for repo operations.

The UZONIA benchmark interest rate on deposit operations in the money market was formed at the level of the policy rate with insignificant fluctuations in January and February. However, in March, as a result of the increase in liquidity surplus, the UZONIA rate decreased towards the lower bound of the interest rate corridor.

The liquidity surplus in the banking system is projected to remain elevated in the next quarter, though a slight decline is expected due to increased demand for cash. At the same time, the demand for the Central Bank's liquidity-absorbing operations and high activity in the interbank money markets are anticipated to remain.

1. Analysis of banking system liquidity

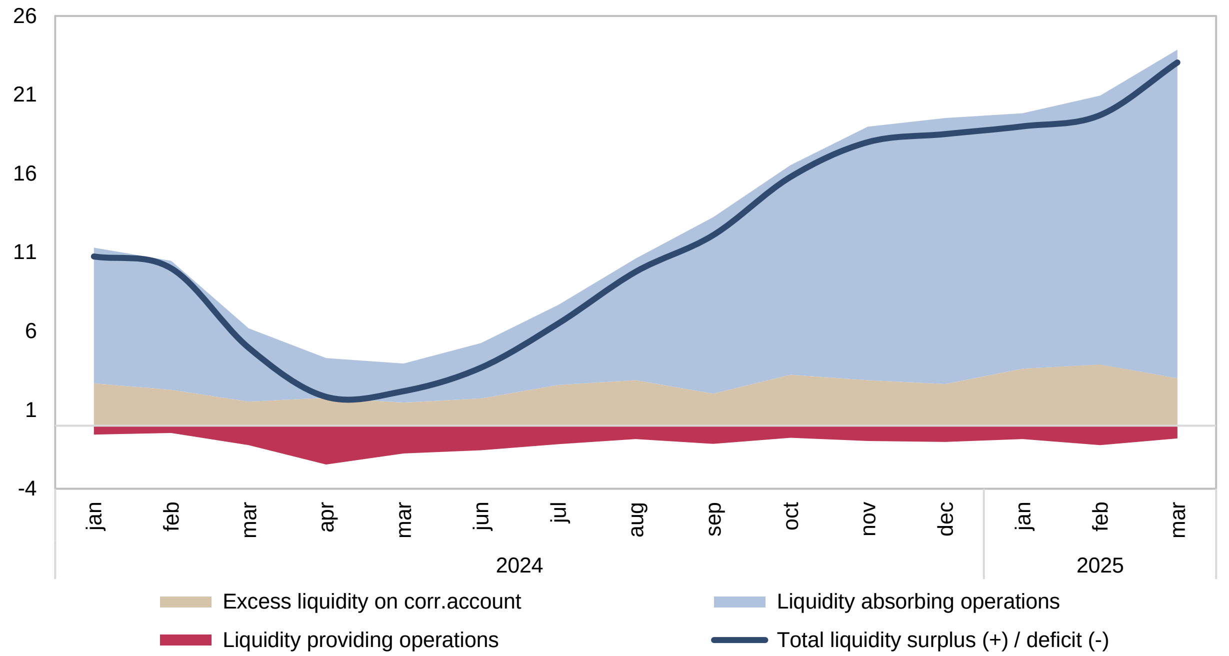
1.1. Overall liquidity dynamics and factors

In the first quarter of 2025, the liquidity of the banking system was in surplus, the average of total liquidity surplus[1] amounted to 20.6 trillion sums. Over the quarter, the average daily liquidity surplus rose from 18.5 trillion sums in December to 23 trillion sums in March, primarily due to the increased influence of budgetary activity *(Figure 1)*.

The liquidity surplus grew slightly in January and February of the first quarter, averaging 19 trillion and 19.7 trillion sums, respectively. However, in March the figure was 23 trillion, increasing by 4.5 trillion sums compared to December 2024.

As a result of the rapid growth rates of deposits observed in the first quarter of 2025, the volume of averaging required reserves of the banking system amounted to 14.2 trillion sums. In turn, daily average of 3.5 trillion sums of additional liquidity was formed on the correspondent accounts, which allowed to fully ensure the continuity of payments.

Figure 1: Total liquidity position of the banking system, *trillion sums*



Source: Central Bank calculations.

[1] **Total liquidity position of the banking system** –is calculated by adding banks' net position on monetary operations *(net balance of liquidity absorption operations and liquidity provision operations)* with the difference between the balance on the corresponding account of commercial banks in the national currency with the Central Bank and the reserve requirement averaging volume. This indicator characterizes the probable size of total liquidity in the banking system in the absence of monetary policy operations.

In order to mitigate the possible pressure from rising excess liquidity on money market interest rates, inflation rates and the domestic foreign exchange market, the Central Bank issued bonds totalling 11.5 trillion sums in January-March.

The impact of operations related to cash in circulation on the liquidity of the banking system is seasonal in nature, and the reduction in the volume of cash in circulation in the first quarter contributed to the increase in the banking system liquidity by 5 trillion sums.

1.2. Impact of government operations on banking system liquidity

In the first quarter of 2025, the increasing impact of government operations on the total liquidity of the banking system decreased by 27.3 percent compared to the fourth quarter of last year, amounting to 15.6 trillion sums *(Figure 2).*

Government operations had the following impact on liquidity:

1) The operations of the Agricultural Support Fund had a negative impact on banking system liquidity in the first quarter, amounting to 0.6 trillion sums. While these operations reduced liquidity by 0.8 trillion sums in January-February, they contributed to an increase of 0.2 trillion sums in March;

2) The operations of the Fund for Reconstruction and Development of Uzbekistan *(UFRD)* contributed to an increase in banking system liquidity by 2 trillion soums;

Figure 2. Impact of government operations on liquidity, *trillion sums*

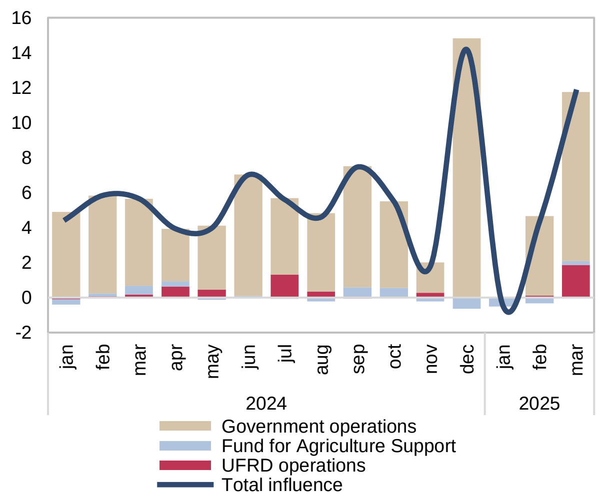
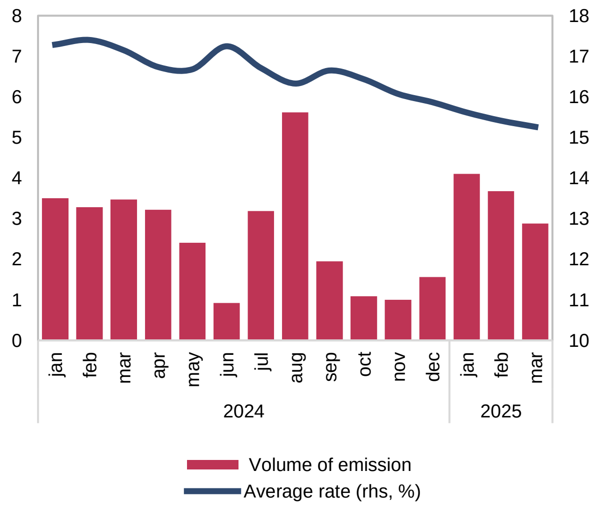


Figure 3: Bonds of the Ministry of Economy and Finance, *trillion sums*



Source: Central Bank calculations.

3) Transactions conducted through the Single Treasury and budget accounts contributed an additional 14.2 trillion soums to liquidity. In this regard, in addition to expenditures on salaries, allowances and pensions of budgetary organizations, the placement of additional temporarily free funds of budgetary organizations formed at the end of the year on deposits in commercial banks on an auction basis also had an impact.

The Ministry of Economy and Finance issued government securities totaling 10.7 trillion sums in the first quarter, with a residual of 38.1 trillion sums as of April 1, 2025 (Figure 3).

In the second quarter of 2025, the increasing impact of budgetary practices on overall liquidity is expected to persist, in line with seasonal trends observed in recent years. In this context, the issuance of government securities is anticipated to continue, which, in turn, will support the development of both the primary and secondary government securities markets, as well as enhance activity in the interbank repo market.

1.3. Analysis of liquidity management operations

During the first quarter of 2025, amid an overall increase in banking system liquidity, demand for the Central Bank’s liquidity-absorbing operations was largely shaped by the prevailing liquidity conditions.

In particular, the Central Bank’s use of overnight deposits and deposit auctions to absorb excess liquidity exhibited an upward trend, reaching 3.1 trillion and 6.9 trillion sums, respectively, in March - compared to 2.4 trillion and 3.6 trillion sums in December *(Figure 4)*.

In order to regulate interest rates in the money market, the Central Bank issued bonds totaling 11.5 trillion sums during the quarter, contributing to the alignment of short-term money market rates - such as overnight operations, which stood at 12.8 percent - within the interest rate corridor. Owing to strong demand for bonds amid excess liquidity, the weighted average yield on these instruments declined, averaging 14.5 percent in March *(Figure 5)*.

As a result, the Central Bank's average net position on monetary operations with commercial banks stood at 17.1 trillion sums, making the Central Bank a net absorber of liquidity during this period.

The prevailing surplus liquidity in the banking system, alongside sustained activity in money markets, led to reduced demand for the Central Bank’s liquidity-providing operations. Most of these operations were conducted through repo auctions, with the average daily balance reaching 773 billion sums in March, up slightly from 711 billion sums in December.

Also, the average daily balance on overnight repo operations decreased significantly, amounting to an average of 39 billion sums in March *(311 billion sums in December)*.

In turn, commercial banks also actively used the interest-free intraday credit instrument to manage unforeseen liquidity shocks during the operational day. In the first quarter, the average daily volume of these transactions amounted to 979 billion sums.

In the second quarter of 2025, the issuance of Central Bank bonds will be increased accordingly, contingent upon the persistence or further expansion of the liquidity surplus. At the same time, a key objective will be to ensure effective management of money market interest rates by regulating excess liquidity - particularly through the active use of the Central Bank's deposit operations.

Figure 4. Monetary operations, *trillion sums*

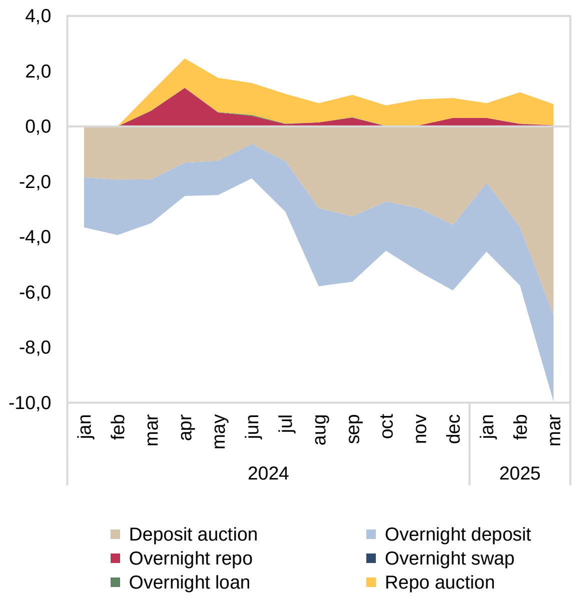
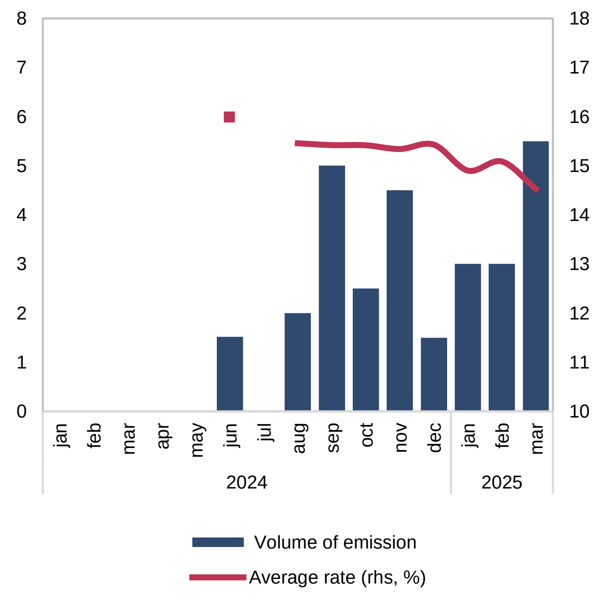


Figure 5. Central Bank bond issuance, *trillion sums*



Source: Central Bank calculations.

1.4. Central Bank purchases of precious metals and foreign exchange interventions

In the first quarter of 2025, investor demand for gold remained strong amid growing uncertainty in global trade policy, a decline in the dollar index and geopolitical tensions. Under these conditions, the gold price fluctuated, averaging $2 800-3 100 per troy ounce.

In the first quarter, the Central Bank's purchases of precious metals from domestic producers totaled 33.1 trillion sums, 10.7 percent more than in the fourth quarter of 2024 *(29.9 trillion sums*).

The volume of net interventions of the Central Bank in the domestic foreign exchange market *(including foreign exchange operations with the Ministry of Economy and Finance and the UFRD)* amounted to 28.1 trillion sums *($2.2 billion)* in the first quarter within the framework of the “principle of neutrality of gold and foreign exchange reserves”. The relatively low volume of interventions is explained by the formation of sufficient supply in the domestic foreign exchange market, driven by high volumes of remittances to the economy in the first quarter.

While some of the additional liquidity generated by precious metals purchases was absorbed by other autonomous factors, the rest was sterilized through monetary operations, including Central bank bonds.

2. Analysis of the interbank money market

2.1. Money market dynamics and interest rates

In the first quarter of 2025, transactions amounting to 129.2 trillion sums were made in the money market, which is 13.3 percent less than in the previous quarter *(9.3 percent more than in the same period of last year) (Figure 6)*. At the same time, the downward dynamics of the volume of interbank deposit operations, which started in 2024, stopped, having increased by 15 percent compared to the fourth quarter, and the volume of repo operations decreased by 24percent.

During the quarter, deposit transactions amounting to 48.4 trillion sums and repo transactions amounting to 80.8 trillion sums were carried out between banks. The reduction of repo operations in the money market, which was observed mainly in March, is explained by the growth of overall liquidity in the banking system and activation of deposit operations, interest rates on which are lower due to simpler execution of operations and their favorability for liquidity ratios.

As a result, the share of repo transactions in the total volume of money market operations decreased from 72 percent in the fourth quarter of previous year to 63 percent in the first quarter of current year. The fact that the total volume of government securities in circulation (*MoEF and CB bonds)* reached 50 trillion sums at the end of the quarter indicates that banks have additional buffers against unforeseen sharp fluctuations in liquidity and that the share of repo operations in the money market will increase in the coming quarters.

Figure 6. Interbank deposits and repo operations, *trillion sums*

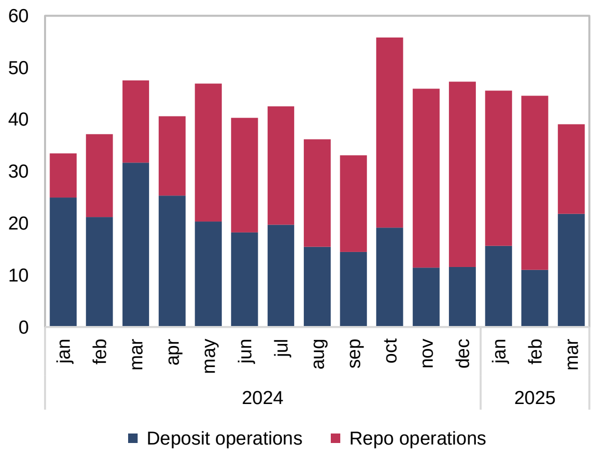
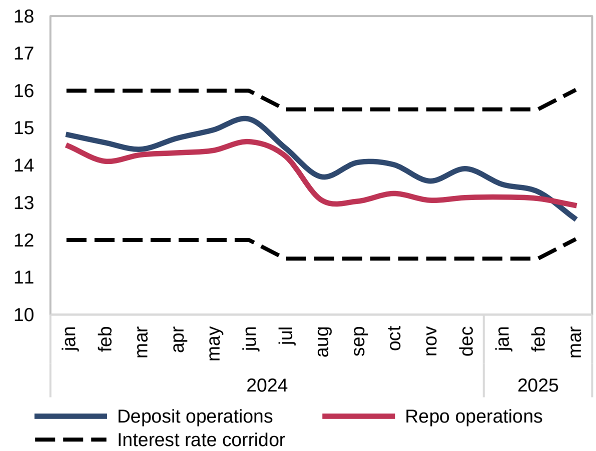


Figure 7. Interbank deposits and repo market rate, *in percent*



Source: Central Bank calculations.

Weighted average interest rates on interbank deposits and repo operations amounted to 13.0 and 13.1 percent, respectively *(they were 13.9 and 13.2 percent in the fourth quarter)* and remained close to each other *(Figure 7)*.

Amid elevated excess liquidity, interest rates declined across all segments of the market. Notably, the weighted average interest rate on overnight interbank transactions stood at 12.8 percent, compared to 13.1 percent in the fourth quarter *(Figure 8)*.

Interest rates on overnight transactions in March were formed within the interest rate corridor of the Central Bank. In particular, average interest rates on transactions with maturity from 2 to 7 days amounted to 13.8 percent, and on transactions with maturity from 8 to 30 days - 15.4 percent.

Decrease in interest rates on operations with a maturity of more than one day is explained by a decline in banks' expectations of term risk amid an increase in liquidity surplus.

UZONIA's benchmark interest rate on overnight deposit transactions fluctuated within the interest rate corridor during the quarter and averaged 12.7 percent *(13.2 percent in the fourth quarter) (Figure 9)*.

Figure 8. Interest rates by maturity in the money market

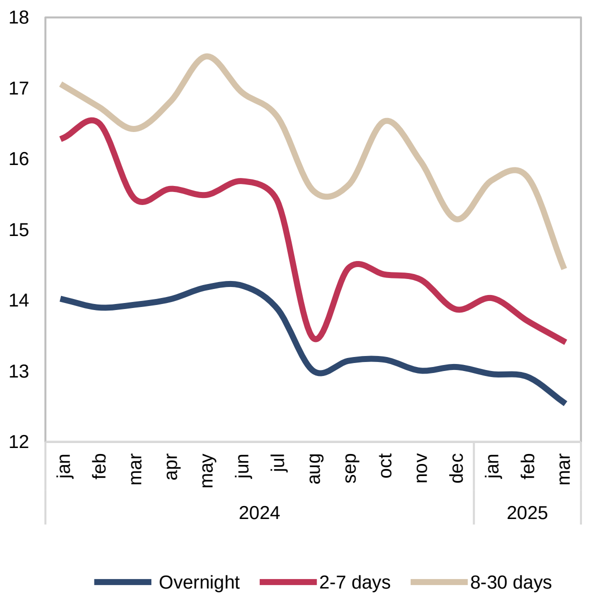
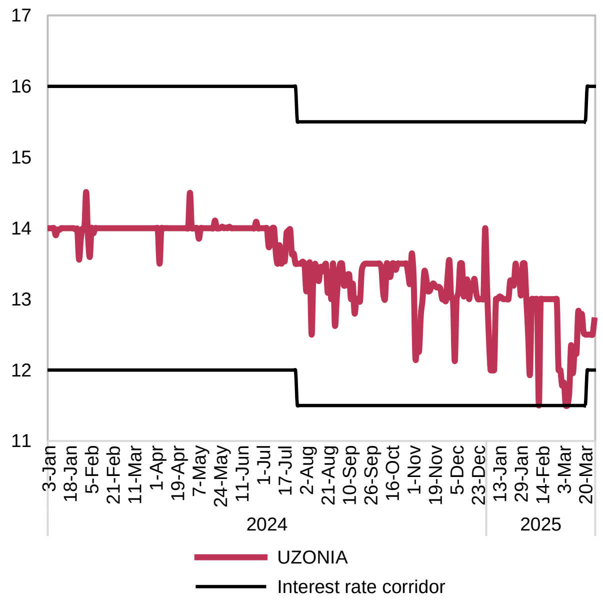


Figure 9: Money market benchmark interest rate



Source: Central Bank calculations.

At the same time, the difference between the UZONIA and the policy rate of the Central Bank averaged around 0.7 percentage points in the first two months of the quarter, based on the dynamics of the overall liquidity of the banking system. Due to significant liquidity surplus in the system in March, UZONIA was formed by 1.3 percentage points below the policy rate.

2.2. Segmentation of the interbank money market

In the first quarter of 2025, overnight deposits accounted for the main part of transactions in the interbank money market, their share amounted to 83 percent *(in the fourth quarter of 2024 – 85 percent)*.

The share of transactions with maturities of 2-7 days increased from 11.7 percent in the fourth quarter of last year to 14.6 percent in the first quarter of current year, while the share of transactions with maturities of 8-30 days remained unchanged and amounted to 1.4 percent, and the share of transactions with maturities over 30 days decreased from 2 percent to 1.4 percent *(Figure 10)*.

In addition, in the first quarter of this year 1 146 deals were made in the money market. Of these deals, 830 were repo deals and 316 were deposit deals.

The largest share of transactions up to 100 billion sums fell to the repo segment of the money market *(584 transactions)*. In turn, in the segment of money market transactions with the volume exceeding 250 billion sums, the largest share of transactions *(57 transactions)* was deposit transactions *(Figure 11)*.

Figure 10. Share of money market transactions by maturities

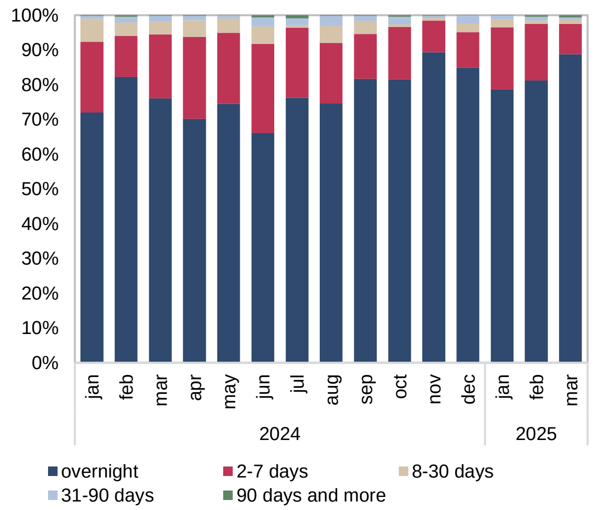
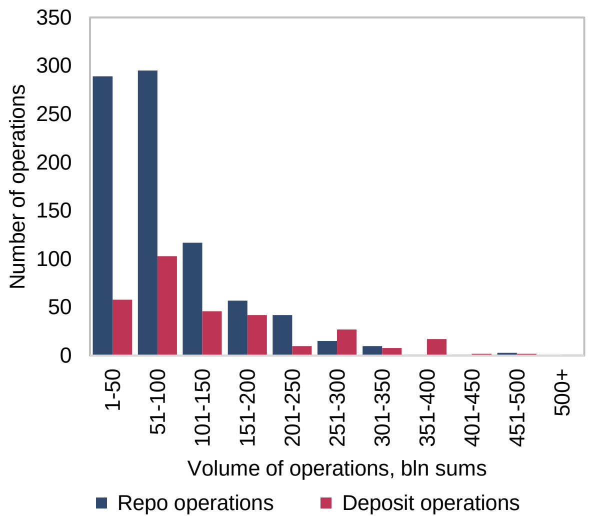


Figure 11. Volume and number of money market operations



Source: Central Bank calculations.

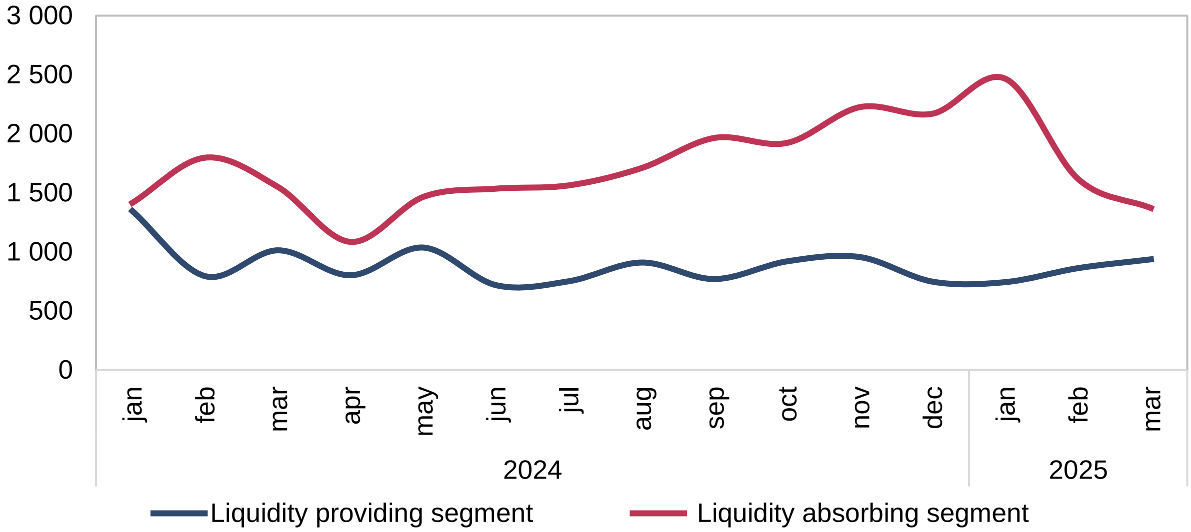
Continued implementation of large operations in the deposit market is explained by the complementary importance of the deposit market and the repo market in effective redistribution of the total available liquidity among banks.

In the first quarter of 2025, the average daily number of banks providing liquidity in money markets was 10 *(11 in the fourth quarter)*, while the average daily number of banks raising liquidity was 6 *(7 in the fourth quarter)*.

In the money market liquidity attracting segment, the share of the three most active banks amounted to 63 percent on average, while in the liquidity provision segment the share of the three most active banks accounted for 38 percent of the total volume of operations. At the same time, compared with the fourth quarter, this indicator in the liquidity attraction segment decreased by 8 percentage points, while in the liquidity provision segment no significant changes were observed.

According to calculations based on the Herfindahl-Hirschman Index[2] *(HH Index)*, which expresses the degree of money market concentration, the concentration level in the money market liquidity attracting segment decreased to 1 371 in March 2025 compared to December *(2 170)*.

Figure 12. Herfindahl-Hirschman index for the money market



Source: Central Bank calculations.

[2] **"Herfindahl-Hirshman" index** – is an indicator expressing the level of concentration in the market *(industry)* and calculated as the sum of squares of market participants' shares. The value of the index ranges from 0 to 10,000, where 10,000 represents absolute market dominance *(monopoly)* by a single organization, while competition increases as the value approaches 0. According to analysts, an index value between 1,500 and 2,500 indicates that the system is "relatively concentrated," while a value above 2,500 indicates "highly concentrated."

This situation reflects the “relative concentration” of the market *(Figure 12)*. In the liquidity provision segment, the HH index increased to 937 compared to December *(748)*.

The decrease in the level of concentration in the liquidity attracting segment compared to the fourth quarter of 2024 is explained by the rebalancing of liquidity allocation among market participants in the context of high liquidity surplus.

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